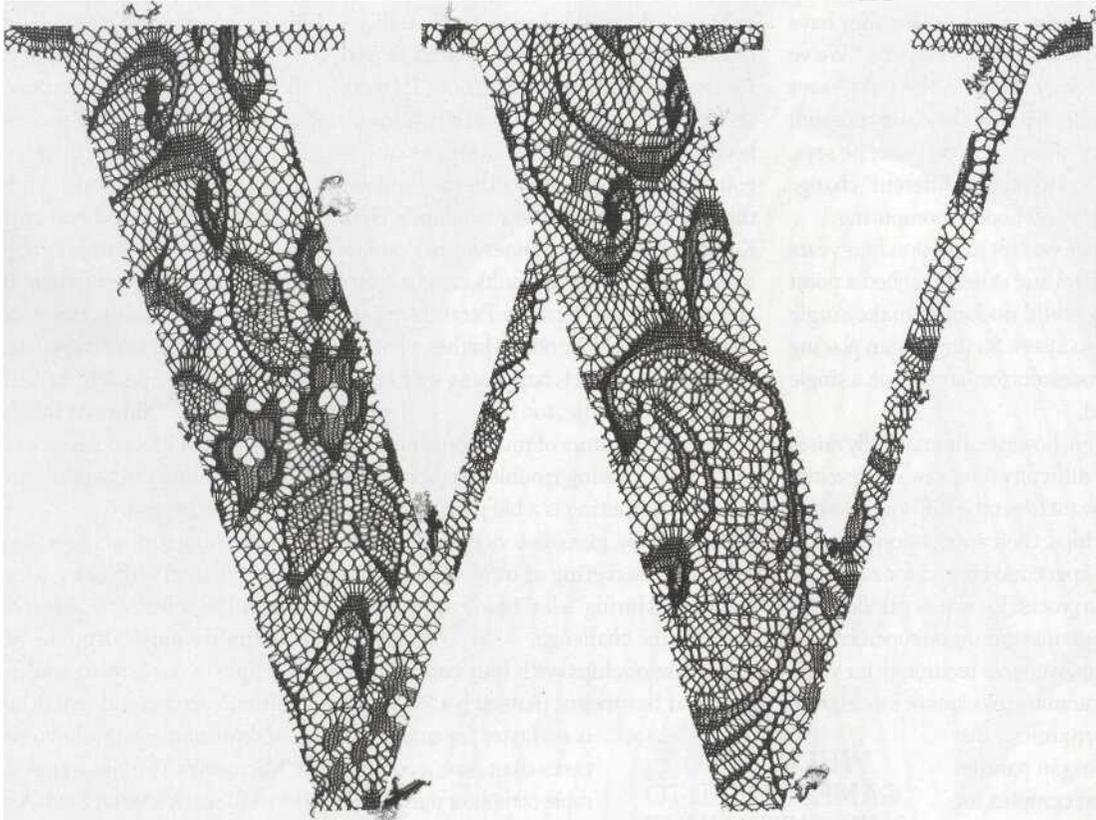


PRADA GOES SHOPPING-FOR MONEY

After a disastrous acquisition spree, the Milanese fashion house, looking to reduce its debt, has decided to raise cash by going public. But at what price?

BY SUZANNE KAPNER PHOTOGRAPHS BY BRIGITTE LACOMBE



When the world's top fashionistas make their biannual pilgrimage to the Milan shows, Miuccia Prada, the house's oracle-like designer, is the one they come to see above all others. Known for her minimalist designs—embodied by her iconic black nylon bags—Miuccia, or Mrs. Prada, as her staff calls her, sets the pace of fashion. A year ago she showed blousy tops and loose-fitting pants. This season the pajama-like looks have been popping up on runways all over Europe. "She is the designer that other designers look to for inspiration," says Ron Frasci, the chief merchant at Saks Fifth Avenue. On a recent June evening, moments before Prada is to unveil its latest

men's collection, the anticipation is palpable as buyers, artists, filmmakers, and publicists mingle in an old warehouse, part of a former industrial complex that houses the company's Milanese headquarters. By the time the last model takes his boyish steps down the runway wearing a polo shirt elongated to mid-thigh and a coat with a portrait collar and holster-like straps, a hush descends on the audience, who sit blinking in the half-light. Once again, Miuccia, 60, seems to have altered the course of fashion.

Prada's sleek fashions were not the only thing turning heads. Earlier this year, the private company reported that net profits in 2007 (the latest numbers available) had risen 66%, to \$187 million. Sales had grown 17%, to \$2.5 billion. Moreover, Prada had recently completed a reorganization in which it sold underperforming businesses, and in the past year it strengthened its management team with the addition of a handful of seasoned executives.

Yet not all is well in the world of haute couture. With economies stalling around the globe, growth in the luxury industry has slowed to a crawl (see "Luxe in Flux"). More worrisome is that by some measures, Prada lags behind its peers. Cash flow as a percent of revenue is 19%, lower than many of its competitors'. At the Italian fashion house Dolce & Gabbana, for instance, the same measure of profitability stands at 28%. Federico Lalatta, a Milan-based partner with the Boston Consulting Group, worries that Prada is missing out on the hordes of newly minted millionaires in the developing world.

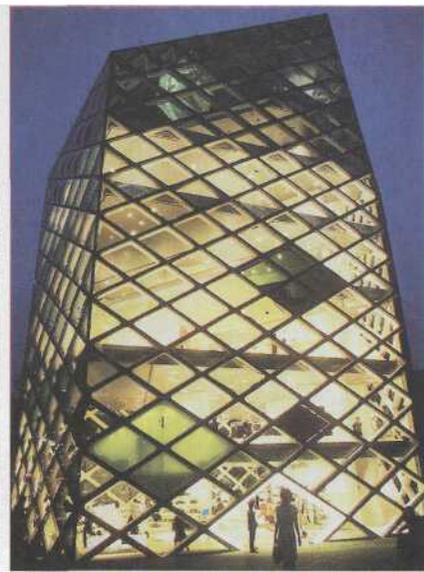
India, for instance, boasts three Louis Vuitton stores and two Gucci shops. Prada has yet to set foot in the country. "Prada has also been one of the latecomers to China," Lalatta says. "As a result, they don't enjoy nearly as good a reputation there as companies that entered the region early, such as Louis Vuitton or Giorgio Armani."

To compete, Prada needs cash badly, not just to expand but also to pay down debt, much of it incurred in an ill-conceived acquisition spree. To raise money, Prada CEO Patrizio Bertelli, Miuccia's husband of 21 years, has indicated that the fashion house will list on the Milan stock exchange by year-end, pending market conditions. While there has been no official comment, Prada is likely to sell about one-third of its outstanding shares in an offering that could raise as much as \$1.5 billion. Control of at least 60% of the shares would still rest with Bertelli and the Prada family, who today own 95% of the company. (The Italian bank Intesa Sanpaolo owns the remaining 5%.) It's a formula other fashion houses are experimenting with. Salvatore Ferragamo plans to go public this year, and Versace may not be far behind. The Prada offering will be an important bellwether.

The last time Prada flirted with the public markets, in 2001, it was forced to scrap plans for an offering following the 9/11 terrorist attacks. This time the climate for IPOs is,

POWER-HOUSE
AT THEIR MILAN OFFICES, MIUCCIA PRADA HANDLES DESIGN WHILE HER HUSBAND, PATRIZIO BERTELLI, WORKS TO EXPAND THE BUSINESS.





WAL-MART IT ISN'T
 PRADA HIRED ICONIC ARCHITECTS REM KOOLHAAS TO DESIGN ITS MANHATTAN STORE (LEFT), AND JACQUES HERZOG AND PIERRE DE MEURON FOR ITS TOKYO SHOP

to be charitable, weak. Even so, Bertelli is betting that he can sell part of Prada at a handsome price while maintaining the idiosyncratic management culture that has made the company one of the world's top fashion houses. It won't be easy. If its IPO had taken place in the spring, as originally scheduled, Prada could have commanded a valuation of \$6 billion, according to analysts. Today the company might be worth no more than \$4.5 billion, and if the financial markets continue their uneasy tumble, there's a good chance that the offering won't happen this year at all. "I wouldn't hold your breath," says John Guy, an analyst with London-based MF Global Securities.

WALKING INTO PRADA'S HEADQUARTERS is like entering a monastery. Instead of monks, there are black-suited sentries at the gate. Once inside, cream-colored cement buildings look onto a courtyard. The effect is a combination of serenity and discipline. The one stroke of whimsy is a stainless-steel circular slide by the German artist Carsten Holler that runs from Miuccia's third-floor window to the ground. She has been known to use it on occasion.

Bertelli's office, like the rest of the compound, is sparsely decorated. On one wall hangs a painting by Alberto Burri, the Italian abstract expressionist. Another wall is made entirely of glass, and the late-afternoon Milan sunlight streams in as we talk. For all the changes that have taken place at Prada in the past few years, the company is still disproportionately dependent on Miuccia's flair for fashion. "Prada's real strengths are its product and design skills," Bertelli says. "Those are the main assets we have."

If Prada does go public, investors would be buying a piece of a legendary fashion house built by Bertelli, a savvy yet volatile CEO. Today Bertelli oversees Prada's 211 boutiques, including a Rem Koolhaas-designed flagship in Manhattan's SoHo district and a Herzog and de Meuron five-sided glass crystal structure in Tokyo. But for its first 70 years, Prada operated out of a single shop, opened in

Milan's famous Galleria in 1913 by Miuccia's grandfather Mario.

By now the rise of Prada is a familiar tale in fashion circles. Ph.D. and former communist (she) meets enterprising Tuscan entrepreneur (he). Bertelli learned to be entrepreneurial after his father died when he was 7, leaving the family nearly broke. When he was 15, his boyhood friends in Arezzo received motorbikes as gifts from their parents. Bertelli's mother couldn't afford one, so he found a decrepit old German Zundapp and refitted the engine himself. By the time he met Miuccia, he owned a network of manu-

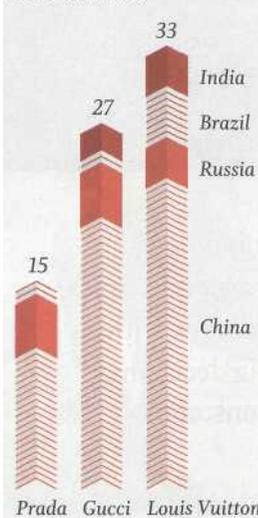
facturing companies. The pair got together, sometimes over pizza, to discuss business. They fell in love, married, and had two sons, now 18 and 20. Along the way they turned her dusty old family luggage business into a conglomerate that by 2000 included not just the Prada brand and a second line called Miu Miu, but also stakes in Jil Sander, Helmut Lang, Fendi, and Church's—the last four acquired in 1999. Prada, however, lacked the capital and managerial strength to cultivate those acquisitions. And that's when the trouble started.

No one denies that Bertelli is a driven genius. An avid yachtsman and America's Cup competitor, he has an uncanny knack for knowing which of all Miuccia's creations will be the commercial winners. "He's brilliant," says Do-

JET SET LAG

Prada trails its rivals in new-store openings.

Number of stores in BRIC countries





WHAT WOMEN WANT
PRADA LAUNCHED ITS FIRST WOMEN'S LINE IN 1988 (LEFT). THIS YEAR'S FALL COLLECTION PRESENTS ALACY LOOK THAT CAN BE HAD FOR \$4,545.

menico de Sole, the former chief executive of the Gucci Group. But his management style—marked by temper tantrums (in Italian they call it *passione*) and a tendency to micromanage—has led to high turnover among Prada's executives. "You need a certain personality to work for the company," says Brian Henke, who survived ten years with Prada before leaving in 2007 to become president of Jimmy Choo USA. "To achieve near-perfection, you have to understand that it may take five or six times to get something right." During the construction of a store on Prince Street in 1996, Bertelli went into a rage because the sheetrock was uneven. To express his displeasure, he took a sledgehammer and smashed a mirror that was hanging on the wall. A company spokesman confirmed the incident but attributed it to Bertelli's desire for perfection. Such attention to detail, while laudable, can at times be counterproductive. Unhappy with the work of American contractors during construction of Prada's Madison Avenue store, Bertelli flew in Italian painters to finish the job. "He cares so much that he can be his own roadblock," Henke says.

While Bertelli gives Miuccia latitude to create her collections, he has not been so free with the other designers in the fold. He pushed Jil Sander to add accessories at a faster pace than she thought appropriate, creating a rift that caused the designer to leave her company. In 2006, Prada sold Jil Sander to a private equity firm. At Helmut Lang, a decision to cut back production of the designer's signature denim proved disastrous. Prada closed the line in early 2006 and sold the trademarks at a loss to Japan's Link Theory Holdings. Lang, who left in 2005, declined to comment. Sander could not be reached. "Our mistake was to expect that the designers we

acquired would accept our rules," Bertelli says. "But they still wanted to act as owners."

Other luxury firms have made the transition from quirky family business to professionally run corporation, but Prada still resides in a netherworld between the two. "Prada has not had strong management, and they have paid for their mistake," says Armando Branchini, executive director of Altagama, an Italian luxury-goods trade association. "Now they are trying to change their ways." It is only within the past year that Prada has hired new country heads, such as

a president for its U.S. operations, a slot that had remained vacant for two years. Still, there is no sign that Bertelli, 62, is ready to step aside. "Should I live until I'm 75, I still have 20% of my time left," he says.

Bertelli, though, has little choice in his decision to go public: He needs the money. He and the rest of the Prada family are responsible for the \$956 million in debt—most of it accrued through the failed acquisition spree—that is on the balance sheet of a holding company through which they exercise their control. On top of that, the operating company paid \$172 million last year to service its \$747 million in debt, cutting into cash available for expansion. In 2007, for instance, Hermes, a company roughly equal to Prada in size, invested \$229 million in new stores and other capital outlays. By contrast, Prada devoted just \$138 million to such projects.

"Prada has too much debt," says Lalatta, the BCG consultant. "If they can't go public, they will be walking a fine line."

For all its lingering problems, demand for Prada's designs remains insatiable. A few days after the fashion show, Miuccia sits in her office and talks about her inspiration for the recent collection. The unusual coats and long shirts were meant to evoke "fragility and strength," she says. "For me, it is always about bringing together opposites."

Those contrasts are an apt analogy for the company too. Prada exudes strength—there is something indestructible about all that black—but also vulnerability. Its designs are trendsetting, yet many of its business practices are old-fashioned. Prada wants to operate in the public realm, yet retain the secrecy and control of a family business. A few more stumbles, and Prada could find itself at the mercy of stronger, more nimble competitors. Like its fashions, Prada is always on the edge.



BERTELLI FLEW INTO A RAGE BECAUSE THE SHEET-ROCK WAS UN EVEN. TO EXPRESS HIS DISPLEASURE, HE SMASHED A MIRROR THAT WAS HANGING ON THE WALL.